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10 March 1967

MEMORANDUM FOR:

THROUGH : Chief,  
          Chief,

SUBJECT : Difficulties Encountered by Less Developed Coun-  
          tries in Their Economic Relations with the  
          Soviet Union

1. The attached background study on the difficulties repor-  
tedly encountered by the less developed countries in their eco-  
nomic relations with the Soviet Union is submitted in response to  
Mr. William E. Colby's memorandum of 24 February 1967 and your  
subsequent telephone conversations

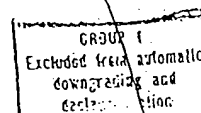
2. Most of the information in this study is unclassified.  
It does, however, contain some information which makes the overall  
classification ~~SECRET~~ this information  
is sourced individually

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DIFFICULTIES ENCOUNTERED BY LESS DEVELOPED COUNTRIES  
IN THEIR ECONOMIC RELATIONS WITH THE SOVIET UNION

As the less developed countries have expanded economic relations with the Soviet Union, they have encountered numerous difficulties inherent in Soviet economic programs. Less developed countries often have found the Soviet Union to be an uncertain trading partner, many of its goods to be of poor quality, and spare parts for Soviet mechanical equipment difficult to obtain. Recipients of Soviet economic assistance frequently complain about the delays in project implementation, the use of outmoded methods, materials, and equipment for which high prices often are paid, and errors in planning and execution of projects.

I. Soviet Trade with the Less Developed Countries

A. Underfulfillment of Trade Agreements

For the less developed countries, the Soviet Union often has proven to be a sporadic and uncertain trading partner. Quotas contained in bilateral agreements frequently are not fulfilled, and trade often fluctuates from year to year. In 1963, for example, the USSR and Ceylon concluded a trade agreement calling for an increase in total trade from \$26 million in 1963 to \$60 million in 1965. Although trade jumped sharply to \$47 million in 1964, it declined to \$40 million in 1965. A trade agreement signed with Iran in 1964 envisioned a 20-percent increase in trade over the \$45 million level achieved in that year. The following year, however, trade between the two countries totaled only \$33 million -- a decline of 23 percent. An agreement with India in 1964 called for a minimum increase of 50 percent in trade between the two countries during 1965. Trade increased only 3 percent, rising from \$391 million to \$403 million.

B. Reselling of Imports

Another difficulty faced by the less developed countries in their trade relations with the USSR is that it often agrees, with apparent generosity, to "accommodate" them by importing some of their primary products, only to resell substantial portions of these imports on Western markets. Thus, the developing country runs the risk of losing an established Western market and receipts of badly-needed hard currency. Cuban sugar, Ghanaian cocoa, and Egyptian cotton are a few of the more important commodities which frequently are resold in Western markets. As much as 10 percent of the Egyptian cotton purchased by the USSR have moved into the resale market and at discounts from world market prices which have been as high as 20 percent. The United Arab Republic frequently has attempted to overcome this difficulty by restricting Soviet

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purchases to the latter half of the cotton marketing year in order to allow Egyptian officials to sell as much as they could to Western importers during the first half of the marketing year.

### C. Trade Deficiencies

Among other problems encountered by less developed countries in their trade with the USSR are the poor quality of many Soviet goods, mistakes in scheduling deliveries, and the general inability to obtain spare parts on time. The following are some examples of these difficulties:

- (1) Poor transport scheduling by Soviet officials sometimes has led to the rapid delivery of Soviet goods and their accumulation and spoilage on the importing country's docks before they could be moved to storage areas. Such was the case with cement shipped to Burma, Guinea and Sudan. Because the cement was poorly packaged, it quickly hardened when exposed to rain.
- (2) A Soviet ship scheduled to pick up a load of Guinean bananas arrived late and found the bananas rotting on the docks. The Soviet trade representative in Guinea then decided that the USSR was not interested in bananas at that time.
- (3) A shipment of 5,000 tons of fertilizer to Iraq to be used on Soviet-aided state farms not only was badly packaged but arrived without notice, could not be stored, and became caked and unusable. Moreover, the Soviet Union had charged Iraq 33 dinars per ton (\$92.40) compared with 16 dinars per ton (\$44.80) paid by Iraqi importers for similar fertilizer from other countries.
- (4) In 1958, Argentina accepted a Soviet trade credit of \$100 million for the purchase of Soviet petroleum equipment. After the initial shipments of such equipment were found to be inferior, the Argentine government cancelled the remaining 70 percent of the credit.
- (5) Soviet matches are of such poor quality that most of them cannot be used in tropical climates. In a number of countries, the gasoline purchased from the USSR has had such a high sulphur content that trucks and automobiles using it have required frequent and extensive motor repairs.
- (6) The Cairo Electricity and Gas Administration sought damages from a Soviet trade organization because

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shipments of Soviet gas coal were found to have a high ash and sulphur content and did not produce coke as a by-product.

- (7) A barter agreement with Colombia called for the exchange of coffee for 5,000 tons of Soviet wheat. The wheat delivered was not of the specified grade and was of a lower quality normally used for making spaghetti and not bread.
- (8) Somalia, which imports a major share of its truck and tractor requirements from the USSR, has increasingly complained about the poor quality of such equipment. Soviet equipment tends to break down frequently and operate improperly, especially under tropical conditions. The GAZ-200 trucks in particular have performed poorly. Axles break frequently, their engines overheat easily, and the fuel consumption makes the cost of using these trucks almost prohibitive. 1/
- (9) Mechanical difficulties highlight the need for a continuing flow of spare parts. Domestic sales agents for Soviet mechanical equipment continually complain about the difficulty in obtaining spare parts for such equipment. Businessmen in Somalia, Mali, and Iran, for example, have complained about the financial losses this problem causes. A Syrian agent for Soviet tractors in Aleppo cancelled his contract after two years because the spare parts problem had caused his business to decline.

#### D. Political Use of Trade

The Soviet Union is not above using its trade to express dissatisfaction with the policies of its trade partners. When Iran joined the Baghdad Pact in 1955, the Soviet Union cancelled its agreement to purchase agricultural products from Iranian farmers in northern Iran. Since most of their exportable surplus was scheduled for shipment to the USSR, these farmers suffered severe financial losses. Iran's conclusion of a mutual defense pact with the US in 1959 brought similar economic reprisals. In addition, the USSR refused to renew contracts to supply newsprint to Iran. Since about one-third of Iranian imports of newsprint was being obtained from the USSR, many newspapers in Iran were forced to curtail their publishing activities until they could purchase the newsprint elsewhere.

Israel's participation in the tripartite invasion of Egypt in 1956 was followed by Soviet cancellation of an oil-for-citrus fruit barter agreement, at great financial loss to Israel.

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The Soviet Union expressed great moral indignation over Israel's attack on Egypt, but the fact that the USSR did not cancel any economic agreements with France and the United Kingdom indicates that the Soviet action was merely a ploy to curry favor with the Arabs. The Soviet Union has applied similar pressures in other countries when its favorable position has been weakened, such as in Algeria, Ghana, and Iraq after coups deposed Ben Bella, Nkrumah, and Kassem.

## II. Soviet Economic Aid to the Less Developed Countries

### A. Political Motivation

The Soviet Union seeks to project an image of its economic aid as a selfless undertaking to assist in the economic development of the less developed countries. In reality, the USSR employs its aid program as a major foreign policy tool to encourage the growth of socialism in recipient countries and to establish a favorable political climate for the activities of domestic Communists. In answer to an Iranian Communist's questions concerning Soviet economic aid to Iran, a Soviet official summed up Moscow's policy when he stated:

It is the Soviet plan to cultivate the underdeveloped areas with foreign aid. In Iran, as in other countries, Soviet aid will help speed the economic and social changes necessary to create the proper conditions for the establishment of socialism. This trend has already accelerated in Iran, cannot now be stopped, and must be encouraged by Soviet aid for the sake of the Communist movement. 2/

### B. Questionable Economic Priorities

Less developed countries not only have cause to question the motivation of the Soviet aid program but also its soundness in terms of their own economic requirements. Some Soviet-assisted projects have not contributed to the establishment of a viable, self-sustaining economy, made optimum use of indigenous natural and human resources, and been able to meet repayment commitments imposed by the USSR. The Soviet Union readily agrees to construct projects of less economic priority which can be completed rapidly and offer quick propaganda returns. Consequently, there are stadiums in Rangoon, Djakarta, and Bamako, hotels in Burma, Afghanistan, and Guinea, and a Presidential Palace in Conakry. Such projects contribute little to the long run economic requirements of the less developed countries.

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C. Deficiencies in Project Undertakings

Poor planning, hasty technical surveys, and the lack of market surveys often are serious deficiencies in the Soviet aid program which create great difficulties for the aid-receiving country. The result often is a project which must be operated at high cost and usually cannot fulfill the needs that prompted its construction. The following examples are illustrative of these problems:

- (1) A 100 kw short-wave station built on Mt. Kakoulima near Sinfornia, Guinea, does not operate satisfactorily. Because of hasty surveys, Soviet technicians did not discover that a large deposit of iron ore lay under the station. As a result the strength of the signals is sapped by the ground's conductivity.
- (2) A Soviet-built milk processing plant in Mogadiscio, Somalia, is operating at about 10 percent of capacity because Soviet technicians ignored the raw material requirements. Not enough dairy cattle are bred in the area to provide a steady and economical supply of raw milk. Moreover, no market survey for the plant's production had been undertaken, with the result that even the small amount produced cannot be easily marketed in the area. 3/
- (3) A canning factory built in Guinea can operate for only two months each year because not enough agricultural products are grown within a reasonable distance of the plant. 4/
- (4) A metallurgical plant in Indonesia does not have economic access to raw materials. When the plant is completed, much of its raw material requirements will have to be imported at a heavy cost.
- (5) Because of inadequate sources of raw materials or markets for their products, the Soviet-built cigarette factory at Janakpur, Nepal, is operating at 25 percent of capacity and the sugar refinery at Biratnagar is losing about 1 million rupees annually. 5/
- (6) The foundations for the machinery to be installed in a steel plant in Ceylon have sunk, because of inadequate technical surveys and preparations for drainage. The result has been prolonged and extensive delays to correct the deficiency, and construction is now well behind schedule.

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- (7) Similar problems have plagued the Balikpapan-Tandjung road in the Kalimantan province of Indonesia. Although the road passes through large swampy areas, not enough allowance was made for proper drainage. Within a few months, completed sections of the highway became submerged and began to break up. Moreover, much of the Soviet equipment used on the project was found to be underpowered and ill-suited for tropical conditions.
  - (8) Preliminary surveys conducted near Tjilatjap in West Java, Indonesia, in connection with a superphosphate plant, reported the existence of adequate supplies of phosphate rock. A second survey reported that the deposits were too small to be commercially exploitable. A third survey was required to determine which of the two surveys was correct.

Among other complaints which might be mentioned are official criticism of a Soviet-built hotel in Guinea as being poorly designed and containing inferior construction materials; the provision of equipment for a pharmaceutical plant in India which is as much as 40 years behind Western designs; 6/ and the return of Soviet Il-18's by Ghana Airways because of their high cost and inefficient operation.

#### D. The High Cost of Soviet Technical Services

Soviet technical services must be paid for and usually are charged to the Soviet credit extended for specific projects, whereas these services often are provided as a grant under Western aid programs. The costs of Soviet services tend to be high and in many countries have accounted for 25 to 30 percent of total Soviet expenditures for a project. Malian officials have stated that for many Soviet projects the greater part of aid funds is being spent for technical services. Ghanaian officials, prior to the coup in 1966 which ousted Nkrumah, had similar complaints. For example, the total cost of a geological survey undertaken by the USSR in Ghana was estimated at about \$5.7 million. Of this total, \$4.4 million was spent to cover the costs of the services of Soviet technicians. 7/

The high cost of Soviet technical services is due to the numerous items which must be covered and the inordinately large number of Soviet technicians which must be employed. Included in the foreign exchange portion which is chargeable to the Soviet credit are salaries; round-trip plane fare (often first-class) between the USSR and the host country; annual leave; and life insurance premiums. If a technician's family accompanies him, their fares must be paid, in addition to a family transfer allowance. The host country also is responsible for most of the local

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maintenance costs of a Soviet technician. These include free medical care, office space, official transportation within the country, and furnished quarters for the technician and his family.

The narrow functional specialization of Soviet technicians (an outgrowth of the specialized Communist educational system) also is a cost-raising factor. Several Soviet technicians sometimes are required to perform the work of one Western technician. Consequently, proportionately more technicians are required for a Soviet project than would be employed on a Western aid project. The problem is aggravated by Soviet unwillingness to accept full administrative responsibility for a project. Soviet organizations are responsible only for conducting technical surveys, for coordinating work of all technicians employed on a project, for directing basic construction activities, and for properly installing machinery and equipment. The aid-receiving country usually is responsible for all related work involving the use of domestic goods and services and for coordinating overall construction activities. This often requires administrative experience which a recipient country may not possess and for which aid was originally sought.

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